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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners: T.W. Patch, Chairman  
Kate Giard  
Paul F. Lisankie  
Robert M. Pickett  
Janis W. Wilson

In the Matter of the Joint Application for Approval )  
of Transfer of Controlling Interest in COOK INLET ) P-11-15  
PIPE LINE COMPANY Under Certificate of Public )  
Convenience and Necessity No. 303 by Union Oil ) ORDER NO. 2  
Company of California to Hilcorp Alaska, LLC )

**ORDER APPROVING JOINT APPLICATION FOR TRANSFER OF  
CONTROLLING INTEREST IN COOK INLET PIPE LINE COMPANY,  
ACCEPTING CORPORATE GUARANTY, ACCEPTING TARIFF  
ADOPTION NOTICE, AND REQUIRING FILINGS**

BY THE COMMISSION:

Summary

We approve the joint application of Hilcorp Alaska, LLC (Hilcorp Alaska) and Union Oil Company of California (Union Oil), to transfer Union Oil's share of Cook Inlet Pipe Line Company (CIPL), holder of Certificate of Public Convenience and Necessity (Certificate) No. 303, to Hilcorp Alaska. The transfer to Hilcorp Alaska is effective the date the Alaska Department of Natural Resources (DNR) approves the transfer of controlling interest in the right-of-way (ROW) leases held by CIPL. We accept Hilcorp Alaska's corporate guaranty and tariff adoption notice. We require Hilcorp Alaska to file a tariff in its own name and a notice when it receives approval from DNR.

Background

Hilcorp Alaska and Union Oil (together, the Applicants) filed a joint application for approval of the transfer of Union Oil's interest in CIPL to Hilcorp Alaska.<sup>1</sup> CIPL is a Delaware corporation in which Union Oil currently holds a 50 percent ownership interest. Hilcorp Alaska seeks to replace Union Oil as a 50 percent shareholder in CIPL and Hilcorp Alaska will assume operating authority of CIPL. Hilcorp Alaska and Union Oil have entered into an agreement<sup>2</sup> for the sale and purchase of certain assets whereby Union Oil has agreed to transfer all of its shares in CIPL to Hilcorp Alaska, subject to our approval.<sup>3</sup>

Hilcorp Alaska and Union Oil also filed a joint petition for confidential treatment<sup>4</sup> and a joint motion to consolidate Dockets P-11-15, P-11-16, and P-11-17.<sup>5</sup> We issued public notice of the Joint Application with comments due by September 21, 2011.<sup>6</sup> We received no comments. Hilcorp Alaska and Union Oil supplemented their

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<sup>1</sup> *Joint Application for Approval of Transfer of Controlling Interest in Cook Inlet Pipe Line Company Under Certificate of Public Convenience and Necessity No. 303 by Union Oil Company of California to Hilcorp Alaska, LLC*, filed August 24, 2011 (Joint Application).

<sup>2</sup> *Asset Sale and Purchase Agreement Between Union Oil Company of California and Hilcorp Alaska, LLC Alaska Asset Sale Alaska, USA Effective 1 July 2011*, filed August 24, 2011 (Agreement), as a confidential document with the Joint Application.

<sup>3</sup> Joint Application at 2.

<sup>4</sup> *Joint Petition of Hilcorp and Union for Confidential Treatment*, filed August 24, 2011 (Joint Petition).

<sup>5</sup> *Joint Motion of Hilcorp and Union to Consolidate*, filed August 24, 2011.

<sup>6</sup> *Notice of Application for Transfer of Controlling Interest*, dated August 31, 2011.

1 Joint Application.<sup>7</sup> We granted the petition for confidential treatment and denied the  
2 motion for consolidation.<sup>8</sup>

3 Discussion

4 Standard of Certificate Transfer

5 Ownership of a pipeline carrier may not be changed without our prior  
6 approval. AS 42.06.305 provides that:

7 (a) Operating authority may not be transferred by sale or lease of the  
8 certificate or by the sale of substantially all of the stock or assets of a  
9 pipeline carrier holding a certificate without the prior approval of the  
10 commission. A transfer not involving a substantial change in ownership  
11 shall be summarily approved.

(b) The commission's decision under this section shall be based on the  
best interest of the public.

12 In considering an application for approval to transfer operating authority,  
13 we are guided by the standard for issuance of the original certificate of a pipeline  
14 carrier. That standard at AS 42.06.270(a) reads, in pertinent part, as follows:

15 [a] certificate shall be issued to any qualified applicant, authorizing the  
16 whole or any part of the operation, service, construction, extension, or  
17 acquisition covered by the application, if it is found that the applicant is  
18 able and willing properly to do the acts and to perform the service  
19 proposed and to conform to the provisions of this chapter and the  
20 requirements and regulations of the commission, and that the proposed  
21 service, operation, construction, extension, or acquisition, to the extent  
22 authorized by the certificate, is or will be required by the present or future  
23 public convenience and necessity; otherwise the application shall be  
24 denied.

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25 <sup>7</sup>Correspondence from B. Keithley, filed September 12, 2011 (Supplemental  
26 Filing).

<sup>8</sup>Order P-11-15(1)/P-11-16(1)/P-11-17(1), *Order Granting Joint Petition for Confidential Treatment, Denying Joint Motion to Consolidate, Addressing Timeline for Decisions, Designating Commission Panel, and Appointing Administrative Law Judge*, dated October 21, 2011 (Order P-11-15(1)).

1 In addition, as required by AS 42.06.305(b), we must base our decision on the best  
2 interest of the public.

3 AS 42.06.270(a)

4 *Able and Willing*

5 In determining whether an applicant is able and willing, we consider the  
6 applicant's technical and managerial expertise as well as its financial fitness.

7 Hilcorp Energy I, L.P. (Hilcorp Energy), a limited partnership, is Hilcorp  
8 Alaska's parent company. Hilcorp Energy's general partner, Hilcorp Energy Company  
9 (Hilcorp), is a large privately held independent oil and natural gas exploration and  
10 production company in the United States. Hilcorp has over 700 employees and  
11 9 operating areas, including the Gulf Coast region, the Gulf of Mexico, and the Rockies.  
12 Hilcorp continues to grow by actively acquiring conventional oil and gas assets and  
13 making required investment in well maintenance, in-field drilling, and new exploration  
14 and development activities. Hilcorp has identified Cook Inlet basin as a region holding  
15 significant potential for continued oil and gas exploration and development  
16 opportunities, and consistent with its overall corporate mission, upon completion of this  
17 acquisition, Hilcorp Alaska intends to pursue a maintenance and development program,  
18 as well as a comprehensive exploration program.<sup>9</sup>

19 If we approve the transfer from Union Oil to Hilcorp Alaska, Hilcorp Alaska  
20 will not only become a 50 percent owner of CIPL but will also become the operator of  
21 CIPL. Hilcorp Alaska expects to retain the Alaska personnel who currently operate  
22 CIPL's pipeline on a day-to-day basis.<sup>10</sup> Hilcorp Alaska notes that it will have access to  
23 the substantial operational expertise of other Hilcorp companies such as Arrowhead

24 <sup>9</sup>Joint Application at 9, Attachment 14-1 at 1.

25 <sup>10</sup>*Id.* at 7.

1 Pipeline, L.P. and Harvest Pipeline Company.<sup>11</sup> Arrowhead Pipeline, L.P. owns and  
2 operates 1,250 miles of pipelines and gathers approximately 90,000 barrels of crude oil  
3 and 140,000 mcf of natural gas per day. Harvest Pipeline Company manages  
4 regulatory compliance for more than 550 miles of oil and gas pipelines and processes  
5 over 100,000 mcf of natural gas per day.<sup>12</sup>

6 Hilcorp Alaska notes its current principal operating personnel are Greg  
7 Lalicker, President; Jason C. Rebrook, Vice President; and Ann M. Kaesermann, Vice  
8 President, Treasurer, and Secretary.<sup>13</sup> Based on the information filed, these three  
9 individuals collectively appear to have the management skills and experience necessary  
10 to operate a pipeline company.<sup>14</sup> With assistance from Hilcorp pipeline companies, we  
11 believe that Hilcorp Alaska can successfully operate the CIPL pipeline.

12 Based on the foregoing, we find that Hilcorp Alaska has sufficient  
13 technical<sup>15</sup> and managerial expertise in oil and gas matters to acquire Union Oil's  
14 50 percent ownership in CIPL.

15 We require that a statement of financial condition be filed in support of an  
16 application to acquire a controlling interest in a certificated pipeline.<sup>16</sup> Hilcorp Alaska  
17 was formed in June 2011.<sup>17</sup> The Applicants submitted the audited financial statements  
18 of Hilcorp Energy for 2009 and 2010.<sup>18</sup> We granted confidential treatment because

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20 <sup>11</sup>Joint Application at 7-8.

21 <sup>12</sup>*Id.* at 8.

22 <sup>13</sup>*Id.* at 5.

23 <sup>14</sup>Supplemental Filing, Appendix B.

24 <sup>15</sup>The only technical aspect missing from the Joint Application and Supplemental  
25 Filing for Hilcorp Alaska is DNR's approval of the transfer of the ROW leases.

26 <sup>16</sup>APUC Form X107 at 4.

<sup>17</sup>Joint Application, Attachment 2-1 at 1-2.

<sup>18</sup>Joint Application at 10; Joint Petition at 6-7.

1 disclosure of the financial information might put Hilcorp Energy at a competitive and  
2 financial disadvantage in the procurement and development of future projects.<sup>19</sup>

3 Based on our review of the Joint Application and Hilcorp Energy's audited  
4 financial statements, we find that Hilcorp Alaska is financially fit to own 50 percent of  
5 CIPL.

6 Public Convenience and Necessity

7 CIPL has been operating its pipeline continuously since 1967.<sup>20</sup> Although  
8 throughput on the pipeline has declined over the years, the oil transportation service  
9 provided by CIPL is still in demand. We find that the continued operation of CIPL is  
10 required by the present and future public convenience and necessity.

11 AS 42.06.305(b)

12 The Applicants assert that there will be no changes to operation,  
13 personnel, or equipment of CIPL.<sup>21</sup> They further assert that approval of the transfer will  
14 have no effect on CIPL's tariff rates or on the rate settlement.<sup>22</sup> Union Oil wishes to be  
15 relieved of the obligation to operate the pipeline and Hilcorp Alaska wishes to take on  
16 the obligation of operating the pipeline.<sup>23</sup> It is in the best interest of the public that  
17 CIPL's pipeline be operated by an entity willing and able to operate it. We find the  
18 transfer of Union Oil's interest in CIPL to Hilcorp Alaska is in the best interest of the  
19 public.

20 <sup>19</sup>Order P-11-15(1) at 7.

21 <sup>20</sup>See Order P-80-5(16)/P-82-1(12), *Order Prescribing Regulatory Methodology*  
22 *and Directing Cook Inlet Pipe Line Company to File Revised Revenue Requirement*,  
dated January 14, 1985, at 6.

23 <sup>21</sup>Joint Application at 7.

24 <sup>22</sup>*Id.* at 2, 10.

25 <sup>23</sup>See Supplemental Filing, Appendix A, Exhibit D-1, *Hilcorp Alaska, LLC Written*  
26 *Consent of Sole Member*, at 1; see also Supplemental Filing, Appendix A, Exhibit D-2,  
*Union Oil Company of California Certificate of Assistant Secretary*, at 1.

Decision

Based on the information provided in the Joint Application and the Supplemental Filing, we find that Hilcorp Alaska is willing and able to operate CIPL's pipeline and that continued operation of the pipeline is required by the present and future public convenience and necessity. In addition, we find that the transfer of Union Oil's interest in CIPL to Hilcorp Alaska is in the best interest of the public. Accordingly, we approve the Joint Application for the transfer of Union Oil's interest in CIPL to Hilcorp Alaska.

CIPL currently holds DNR ROW leases ADL 33333, ADL 32391, ADL 225193, and ADL 225498.<sup>24</sup> Hilcorp Alaska has applied for approval of transfer of controlling interest in those ROW leases.<sup>25</sup> DNR has not yet issued a decision on Hilcorp Alaska's application. We make approval of Hilcorp Alaska's application for transfer effective the date DNR approves the transfer of controlling interest in the ROW leases held by CIPL. We require Hilcorp Alaska to notify us when it has received approval of the transfer the ROW leases from DNR.

Corporate Guaranty

We commonly require a corporate guaranty where the financial support for an application to transfer is provided by a parent company of the applicant rather than by the applicant. Hilcorp Alaska notes it was aware of this requirement.<sup>26</sup> The corporate guaranty must be in an acceptable form and guaranty the applicant's common carrier pipeline obligations. We accept the corporate guaranty provided by Hilcorp Alaska.

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<sup>24</sup>Supplemental Filing, Appendix A, Letter from B. Keithley to Daniel S. Sullivan, DNR Commissioner, dated September 12, 2011, at 1.

<sup>25</sup>Supplemental Filing, Appendix A.

<sup>26</sup>Joint Application at 10, Attachment 13-1.

1 Tariff

2 Hilcorp Alaska filed a tariff adoption notice.<sup>27</sup> We approve the tariff  
3 adoption notice filed September 12, 2011, by Hilcorp Alaska.

4 The Applicants note that CIPL's current tariff will not change as a result of  
5 the proposed transfer.<sup>28</sup> However, Hilcorp Alaska must make tariff revisions to ensure  
6 that the structure of the tariff complies with regulatory requirements. We require Hilcorp  
7 Alaska to file a tariff in its own name that includes its current Alaska mailing address on  
8 the title page.

9 Final Order

10 This order constitutes the final decision in this proceeding. This decision  
11 may be appealed within thirty days of the date of this order in accordance with  
12 AS 22.10.020(d) and the Alaska Rules of Court, Rule of Appellate Procedure 602(a)(2).  
13 In addition to the appellate rights afforded by AS 22.10.020(d), a party may file a petition  
14 for reconsideration as permitted by 3 AAC 48.105. If such a petition is filed, the time  
15 period for filing an appeal is then calculated under Alaska Rules of Court, Rule of  
16 Appellate Procedure 602(a)(2).

17 Docket Closure

18 With the above determinations, no substantive or procedural matters  
19 remain in this proceeding, and there are no allocable costs under AS 42.06.610 and  
20 3 AAC 48.157. Accordingly, we close this docket.

24 <sup>27</sup>Supplemental Filing, Appendix E.

25 <sup>28</sup>Joint Application at 2, 10.



**ORDER**

THE COMMISSION FURTHER ORDERS:

1. The *Joint Application for Approval of Transfer of Controlling Interest in Cook Inlet Pipe Line Company Under Certificate of Public Convenience and Necessity No. 303 by Union Oil Company of California to Hilcorp Alaska, LLC* filed August 24, 2011, is approved effective the date of approval of transfer of the right-of-way leases by the Alaska Department of Natural Resources.

2. Within five business days after Hilcorp Alaska, LLC receives approval of transfer of the right-of-way leases by the Alaska Department of Natural Resources, Hilcorp Alaska, LLC shall file a notice with us that it has received approval of the transfer of the right-of-way leases.

3. The *Corporate Guaranty* filed August 24, 2011, with the *Joint Application for Approval of Transfer of Controlling Interest in Cook Inlet Pipe Line Company Under Certificate of Public Convenience and Necessity No. 303 by Union Oil Company of California to Hilcorp Alaska, LLC* by Hilcorp Alaska, LLC is accepted.

4. The tariff adoption notice filed September 12, 2011, by Hilcorp Alaska, LLC is accepted.

5. By March 8, 2012, Hilcorp Alaska, LLC shall file a tariff in its own name.

DATED AND EFFECTIVE at Anchorage, Alaska, this 9th day of December, 2011.

BY DIRECTION OF THE COMMISSION  
(Commissioners Kate Giard and Robert M. Pickett,  
not participating.)

